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## WHEN DOES SALES TAX APPLY TO SHIPPING AND HANDLING CHARGES?

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The information contained in this notice responds to numerous inquiries from retailers concerning the application of sales tax to shipping and handling charges. This notice contains frequently asked questions and responses to assist you in determining when California sales tax applies to shipping and handling charges.

### What is the difference between shipping and handling?

Shipping consists of transportation of your goods after the goods leave your business. If the goods are shipped directly from your supplier or some other point to your customer and are not first delivered to you, this is also considered shipping. Handling consists of all the steps necessary to prepare your goods for shipment such as picking, packing, labeling, and loading.

### When tax does not apply to the sale of an item, does tax apply to the shipping or handling charges for that item?

No. If tax does not apply to your sale of an item (for example, certain sales of candy or food items), then tax does not apply to related shipping or handling charges.

### When tax applies to the sale of an item, does tax also apply to the handling charges for that item?

Yes. When tax applies to the sale of an item, tax applies to the handling charges for that item.

### When tax applies to the sale of an item, does tax also apply to the shipping charges for that item?

When tax applies to the sale of an item, tax generally applies to the shipping charges. However, shipping charges may be excluded from tax if all of the following requirements are met:

- Your invoice clearly uses terms such as "shipping," "delivery," or "postage," as a charge separate from the items sold. (In addition, handling charges must be stated separately from shipping charges, because tax applies to handling charges when the sale of the item is taxable. Please refer to the discussion on page 2 on combining the charges for shipping and handling.)
- The charge does not exceed the actual cost of shipping. (You must keep records to establish the actual cost of shipping.)

- You use the U.S. Postal Service, an independent contractor, or a common carrier (for example, United Parcel Service, Federal Express, or Airborne) to ship directly to your customer. (If you ship with your own vehicle, please refer to the next question.)

Consider an example where you sell a refrigerator and have it shipped by an independent contractor. On the invoice, you show a \$750 charge for the refrigerator plus a separately stated \$50 charge for shipping (the amount the independent contractor charged). Since the shipping charge is stated separately, tax applies only to the charge of the refrigerator (\$750). If the invoice had shown a single charge of \$800, tax would apply to the entire amount.

If you charge more for shipping than your actual shipping costs, the added amount is subject to tax. In the example above, if you had charged your customer \$60 for shipping but your actual shipping cost was \$50 (the amount charged by the independent contractor), tax would apply to the additional \$10 charge.

**If I use my own vehicle to ship an item the sale of which is subject to tax, –does tax apply to the shipping charges?**

Generally, when tax applies to the sale of an item and you use your own vehicle to ship the item to your customer, your shipping charges are subject to tax.

However, if you and the purchaser enter into a written contract of sale that is signed before shipment and that transfers ownership of the property to the purchaser prior to shipment, and the shipping charges are separately stated, the shipping charges may be excluded from the measure of the tax.

**Does tax apply to my shipping and handling charges for an item the sale of which is subject to tax, if I combine the charges for shipping and handling on the invoice?**

If you charge a single amount for shipping and handling of an item the sale of which is subject to tax (for example, the invoice shows a single amount for "shipping and handling" or "postage and handling"), the portion of the charge that represents handling is subject to tax, while the portion that represents shipping may or may not be subject to tax. To determine whether tax applies to your shipping charges, please refer to our previous discussion.

It is important to use terms such as "shipping," "delivery," or "postage" on the invoice to represent shipping charges. A separately stated charge identified only as "handling" is not considered a shipping charge, and the entire handling charge is taxable even if postage or shipment charges are indicated on the package.

**Available Board of Equalization (BOE) Publications and Information**

BOE Publication #100, *Shipping and Delivery Charges*

BOE Regulation 1628, *Transportation Charges*

Copies of publications, forms, regulations and other information are available on the Internet at [www.boe.ca.gov](http://www.boe.ca.gov) or by calling the BOE Information Center toll-free at

1- 800 400-7115.